Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Petition of WorldCom, Inc. Pursuant To Section 252 (e)(5) of the Communications Act for Expedited Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes With Verizon Virginia, Inc., and for Expedited Arbitration	)	CC Docket No. 00-218
In the Matter of Petition of Cox Virginia Telecom, Inc. Pursuant to Section 252 (e)(5) of the Communications Act for Preemption Of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia, Inc. and for Arbitration	)	CC Docket No. 00-249
In the Matter of Petition of AT&T Communications Virginia Inc., Pursuant to Section 252 (e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia Corporate Commission Regarding Interconnection Disputes with Verizon Virginia, Inc.	)	CC Docket No. 00-251

PANEL SURREBUTTAL TESTIMONY

ON BEHALF OF AT&T AND WORLDCOM, INC.

ON NON-RECURRING COSTS AND ADVANCED DATA SERVICES

****PUBLIC VERSION****

September 21, 2001

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I. INTRODUCTION AND SUMMARY

Q. MS. MURRAY, PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Terry L. Murray. I am President of the consulting firm Murray & Cratty, LLC. My business address is 227 Palm Drive, Piedmont, CA 94610.

Q. MS. MURRAY, HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

A. Yes, I filed direct testimony on behalf of AT&T Communications of Virginia, Inc.,[1] ("AT&T") and WorldCom, Inc. ("WorldCom"). Exhibit (TLM-1) to that testimony provides a summary of my qualifications and experience. I also filed three pieces of reply testimony, individually on economic and policy issues and, as a member of panels, on recurring cost issues and on non-recurring costs and advanced data services.

Q. MR. WALSH, PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Richard J. Walsh and my business address is 33 Francis Drive, Hillsborough, New Jersey 08844. I am presently providing consulting services to AT&T as a Technical Analyst in the Local Services and Access Management

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1 This surrebuttal testimony is presented on behalf of AT&T Communications of Virginia, Inc., TCG Virginia, Inc., ACC National Telecom Corp., MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. (together, "AT&T").

(LSAM) / Local Connectivity Cost, Price, and Planning Division. I have also been retained by WorldCom for the purpose of analyzing and critiquing the non-recurring cost model and rates proposed by Verizon Virginia in this proceeding.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

A. Yes, I filed direct testimony on behalf of AT&T and WorldCom. My qualifications were included with that testimony. I also filed reply testimony as a member of a panel on non-recurring costs and advanced data services.

Q. MR. RIOLO, PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Joseph P. Riolo. I am an independent telecommunications consultant. My business address is 102 Roosevelt Drive, East Norwich, NY 11732.

Q. MR. RIOLO, HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

A. Yes. I submitted Direct Testimony in this proceeding on behalf of AT&T and WorldCom on July 31, 2001. My qualifications were included as Exhibit JPR-1 to that testimony. I also filed reply testimony as a member of panels on recurring cost issues and non-recurring costs and advanced data services.

Q. WHAT IS THE PURPOSE OF YOUR PANEL SURREBUTTAL TESTIMONY ON NON-RECURRING AND ADVANCED SERVICES COSTS?

A. AT&T and WorldCom have asked us to review and respond to the rebuttal testimony filed by Verizon Virginia, Inc. ("Verizon VA" or "Verizon"). In particular, we will rebut Verizon's critique of ATT/WCOM Non-Recurring Model ("Verizon NRC Panel Rebuttal")[2] with respect to non-recurring costs and costs associated with advanced data services.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. We will discuss the following issues:

- AT&T and WorldCom have treated OSS costs appropriately. The one-time development costs to access Verizon's OSS are caused by the transition to a competitive environment, not by new entrants' orders for UNEs. Therefore, it is inappropriate to recover these costs solely from new entrants.
- Verizon's task times and the charges based on these task times are inflated because most of Verizon's task times are based on a faulty task time survey. Therefore, the Commission should not base non-recurring charges on Verizon's proposed task times.

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2 The members of Verizon's NRC Panel are Ralph Curbelo, Mike Peduto and John White. Their rebuttal testimony was provided in Verizon Virginia, Inc. Volume II of II.

- Service order costs should reflect the scheduled "future mode of operation" changes and other electronic enhancements which are readily foreseeable or which should be currently in effect.
- The level of manual intervention should be determined based on what can and should be accomplished based on a forward-looking network. Thus, AT&T/WorldCom's NRCM design using a 2% manual intervention "fall-out" rate is entirely reasonable.
- Verizon's critique that AT&T/WorldCom's proposed provisioning costs fail to distinguish between manual intervention resulting from inefficiencies and those relating to a cost-benefit analysis of automating all functions must be rejected because it fails to make this distinction in its own cost study.
- Verizon's many failures to dispositively respond to interrogatories indicate the degree to which its non-recurring cost study is based on speculation.
- AT&T/WorldCom's NRCM "bottoms-up" methodology is more appropriate than that employed by Verizon to determine appropriate non-recurring charges.
- There are serious flaws with the RCCC activities represented in the Verizon non-recurring cost model, especially concerning reusing facilities and the administrative role that the RCCC plays in providing the so called "critical" real-time events in the migration of existing Verizon VA retail

customers to competitive local exchange carriers "CLECs" via the hotcut process.

- The many inconsistencies between Verizon's model and its data responses regarding central office wiring make Verizon's resulting central office wiring-related costs suspect.
- Imposition of disconnect costs on CLECs when installing new customers is not supported by cost causation principles.
- The Commission should await the results of the DSL collaborative in New York prior to setting prices for DSL, but to the extent that the Commission adopts any DSL prices at this time, it should rely on the recommendations of AT&T/WorldCom.
- Verizon should not be allowed to double recover loop conditioning costs in non-recurring charges because the cost of providing "conditioned" loops is fully recovered in recurring charges.
- The costs of populating Verizon's Loop Facility Assignment and Control System ("LFACS") and other databases with the relevant loop makeup information are already captured in Verizon's factors. The costs for mechanized access to LFACS would fall within the scope of the competition-onset costs and should not be borne solely by competitors.

The remainder of our testimony explains the basis for each of these conclusions.

II. AT&T AND WORLDCOM HAVE NOT IGNORED ANY APPROPRIATE OSS COSTS.

Q. VERIZON CRITICIZES THE AT&T/WORLDCOM MODELS FOR EXCLUDING THE COSTS OF DEVELOPING THE FORWARD-LOOKING OSS THAT THEY ASSUME.[3] HOW DO YOU PROPOSE TO THAT VERIZON RECOVER THE COSTS OF PROVIDING ACCESS TO OSS?

A. The AT&T/WorldCom Recurring Cost Panel[4] explained in its rebuttal testimony our proposed treatment of OSS development costs.[5] In summary, the one-time development costs to access Verizon's OSS are caused by the transition to a competitive environment, not by new entrants' orders for UNEs. Therefore, it is inappropriate to recover these costs solely from new entrants. Because new entrants incur costs for their own portion of the electronic gateway between their operation and Verizon's OSS, the simplest competitively neutral mechanism for cost recovery is to require each company to bear its own costs for access to OSS. If the Commission authorizes any explicit access to OSS charge, it should be calculated as a competitively neutral surcharge on all Virginia telecommunications users. Based on Verizon's reported access to OSS costs, an eight-cent ($.08) per month per line surcharge would be sufficient to recover all of

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3 Verizon NRC Panel Rebuttal at 7 and 9-10.

4 The Rebuttal Testimony of Michael R. Baranowski, Terry L. Murray, Catherine E. Pitts, Joseph P. Riolo and Steven E. Turner on behalf of AT&T and WorldCom, Inc.

5 AT&T/WorldCom Recurring Cost Panel Rebuttal at 142-167.

the alleged costs over a ten-year period.[6] Ongoing OSS expenses are a normal cost of business and should be recovered in the same way Verizon captures all normal forward-looking recurring OSS expenses, through its annual cost factors.

Q. ARE THE COSTS OF OSS UPGRADES INCLUDED IN THE RECURRING COSTS?

A. Yes, we believe they are. As the AT&T/WorldCom Recurring Cost Panel argues in detail and we summarized above, the initial development costs for OSS should not be recovered through recurring charges. However, Verizon booked its development costs of "access to OSS" for example, to general computer expense accounts,[7] that both Verizon and AT&T/WorldCom used to develop recurring expense factors.[8] And, despite its claims to the contrary, Verizon has failed to remove all such OSS costs from its expenses factors.[9]

OSS development and upgrade projects have been and will continue to be a part of the ordinary course of business for Verizon. Although they are not tied to any *specific* projects, the recurring cost expenses factors reflect the costs of

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6 Even the $.08 per month surcharge figure is likely too high, because Verizon's access to OSS cost study reflects embedded, rather than forward-looking costs, probably some double-counting with Verizon's recurring costs, and the costs of potentially duplicative or obsolete systems. Of course, if the Commission adopts our primary recommendation to have each carrier bear its own access to OSS costs, there is no need to resolve these issues because Verizon will bear any costs attributable to its own inefficiencies.

7 *See* Verizon's Responses to AT&T/WCOM 7-38, 7-54, and 7-55.

8 *See, e.g.*, Verizon's Responses to AT&T/WCOM 7-39 and 7-55.

9 *See* AT&T/WorldCom Recurring Cost Panel Rebuttal at 165-166.

Verizon's Information Management organization to accomplish such projects. Indeed, Verizon's OSS costs do not seem to have increased dramatically as a result of the Telecommunications Act of 1996,[10] nor does Verizon plan to reduce the number of employees in its Information Management and Network organizations once significant one-time development of OSS for UNE services is complete.[11]

III. VERIZON'S TASK-TIME SURVEY IS FAR FROM A RELIABLE BASIS FOR DETERMINING FORWARD-LOOKING NON-RECURRING COSTS.

Q. VERIZON PORTRAYS ITS NON-RECURRING COST MODEL AS BEING BASED ON "ACTUAL DATA," WHILE CRITICIZING AT&T/WORLDCOM FOR RELYING ON THE OPINION OF SUBJECT MATTER EXPERTS.[12] WHAT DOES VERIZON MEAN BY "ACTUAL DATA"?

A. By "actual data," Verizon appears to refer to its survey of its employees regarding work-time estimates.[13] When questioned about the basis for its non-recurring cost assumptions, Verizon described its non-recurring tasks and task times as based on the "expert opinion" and "actual experience" of its employees.[14] But Verizon's

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10 Verizon's Response to AT&T/WCOM 7-40.

11 Verizon's Response to AT&T/WCOM 7-37.

12 Verizon NRC Panel Rebuttal at 67.

13 *See* Verizon's Responses to AT&T/WCOM 10-107, 10-108 and 10-109.

14 Verizon's Response to AT&T/WCOM 10-110.

"actual data" is nothing more than the opinion of its own unidentified subject matter experts. Furthermore, Verizon collected this information in such a way as to invalidate it entirely, as we discuss below.

Q. DID VERIZON CONDUCT TIME AND MOTION STUDIES OR OTHERWISE COLLECT "ACTUAL DATA"?

A. No, for the most part. Most of Verizon's task times are based on its faulty task time survey. Indeed, Verizon has consistently resisted performing any time or motion studies, even when ordered to do so. For example, the Public Service Commission of Maryland recently required Verizon "to develop cost studies and/or factors that are specific to line sharing and predicated upon bona fide time and motion studies."[15] Verizon did not comply with the Maryland Commission's directive[16] nor has the company any plans to do so.[17]

Q. SHOULD NON-RECURRING COSTS REFLECT VERIZON'S "ACTUAL" TASK AND TASK TIMES?

A. No. Even if Verizon had gathered valid data concerning its "actual" processes—which it has not—those data would not necessarily be relevant to a forward-

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15 Maryland Public Service Commission, Case 8842, Phase II, Order 76852 at 13-14.

16 Non-Recurring Cost Testimony of Mr. Bruce F. Meacham, May 25, 2001 at 23 and Verizon Maryland's Responses to Maryland PSC Staff 4-3, 4-4 and 4-9(I), Maryland Public Service Commission Case 8879.

17 Verizon Maryland's Responses to PSC Staff 4-4, Maryland Public Service Commission Case 8879. Verizon replied that it has "no … plans" to comply with the Maryland Commission's directive.

looking cost study. A forward-looking non-recurring cost study must assume a forward-looking network architecture and least cost, efficient practices. A forward-looking cost study should not reflect Verizon's actual tasks and task times based on its embedded architecture.

Q. DO YOU HAVE ANY EVIDENCE THAT VERIZON'S TASK TIMES DO NOT REFLECT ITS ACTUAL EXPERIENCE?

A. Yes. The task times resulting from Verizon's survey bear little resemblance to reality. We provided many examples of excessive task times in our rebuttal testimony. But even the relationships amongst task times are obviously erroneous. For example, for many elements and many task times, Verizon's survey returned higher task times for the "additional" element than for the "initial" element. It is intuitively clear that provisioning tasks for "additional" elements on the same order should require the same or less time to accomplish than for the "initial" element. Verizon has indicated that this discrepancy results from the fact that its "survey forms were designed to ask separate questions for the initial and additional unbundled network elements."[18] Verizon suggested, in the same response, that this may result from the different number of survey responses for "initial" and "additional" tasks: "Not all survey respondents

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18 Verizon's Response to AT&T/WCOM 7-56.

provided a time for both initial and additional elements."[19] But it is possible and even likely, as the AT&T/WorldCom Recurring Cost Panel Rebuttal explained, that some survey respondents intended their blank answers to indicate that no additional time for a particular task was needed for the "additional" element, and that others did not understand the question fully.

Verizon's survey has a similar problem with its task times for "connect" and "disconnect," where the task times do not line up and it is often the case that Verizon has assumed a higher time for "disconnect" than for "connect." For certain tasks this is clearly nonsensical. For example, Verizon has assumed higher average travel time to "disconnect" a loop than to "connect" a loop. Once again, Verizon suggests this mismatch stems from asking the respondents "separate questions for connects and disconnects," and notes that not all respondents replied for both.[20] Verizon attempts to explain the travel time discrepancy in this way:

> For example, the time it takes to perform the work activity "Travel to remote/unmanned central office for the purpose of performing frame provisioning work" is not the same for connects and disconnects. It is obvious that the sets of unmanned central office locations visited are not identical for connects and disconnects, nor are the relative frequencies with which trips are made to these locations.[21]

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19 *Id.*

20 Verizon's Response to AT&T/WCOM 7-57.

21 *Id.*

This position is strange given Verizon's position that a disconnect takes place for every competitor-purchased UNE.

Finally, these discrepancies, like the ones detailed in the AT&T/WorldCom Recurring Cost Panel Rebuttal, highlight a fundamental problem with Verizon approach—its small sample size.

Q. SHOULD THE COMMISSION ADOPT COSTS BASED ON VERIZON'S TASK TIME SURVEY?

A. No. As we explained in depth in our August 27 reply testimony,[22] Verizon committed numerous errors in survey design, data collection and data processing that produced inflated and unreliable results. These errors are not limited to the more extreme examples that we listed in our reply testimony, but are pervasive throughout the survey. Verizon's survey could not possibly represent efficient work times—we presented numerous examples of inflated, inefficient task times in our reply testimony. Because Verizon's survey methodology is so seriously flawed, the Commission should not use the survey results as the basis for setting non-recurring charges.

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22 AT&T/WorldCom Panel Reply on Non-Recurring Costs and Advanced Data Services at 74-92.

IV. SERVICE ORDERING COSTS SHOULD BE BASED ON FORWARD-LOOKING FLOW-THROUGH PROCESSES.

Q. VERIZON ASSERTS, "AT&T/WORLDCOM SIMPLY FAIL TO RECOGNIZE THAT SOME ORDERS ARE NOT DESIGNED TO FLOW THROUGH THE SYSTEM BECAUSE IT IS EITHER TECHNICALLY INFEASIBLE OR ECONOMICALLY INEFFICIENT TO DESIGN AUTOMATED SYSTEMS TO HANDLE SUCH ORDERS."[23] DID VERIZON PROVIDE AT&T/WORLDCOM WITH EXAMPLES TO SUPPORT THIS CLAIM?

A. No. Verizon's claims are unsupported and unfounded. Discovery question AT&T/WCOM 7-6 requested Verizon's analysis of how the OSS systems and functions it currently provides to competitive carriers might change as the result of the merger between GTE and Bell Atlantic. Verizon provided a document in response[24] that highlights ***BEGIN VERIZON PROPRIETARY

23 Verizon NRC Panel Rebuttal at 8.

24 Verizon's Response to AT&T/WCOM 7-6, attachment: "Plan of Record for Uniform OSS Pursuant to Bell Atlantic/GTE Merger Conditions."

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This quotation from the Plan of Record indicates that the ordering interfaces are currently available. In addition to the ordering interfaces, the document specified what products could be ordered using a local service request ("LSR") or an access service request ("ASR"). The following table is a list of all[25] products that can be ordered electronically today within the Verizon

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25 *****BEGIN VERIZON PROPRIETARY**

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(formerly Bell Atlantic) footprint. It suggests something far different than Verizon's Service Ordering TISOC non-recurring costs.

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Although Verizon claims[26] that some orders are not designed to flow through, the company fails to specifically identify these types of orders. Instead, Verizon simply padded its occurrence factors throughout the model making its conclusions impossible to validate. Verizon stated in its testimony:

> If a UNE, or the necessary process for ordering that UNE, is complex and requires numerous levels of checks and coordination, designing a flow through process would be time-consuming and costly, if it could be done at all.[27]

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26 Verizon NRC Panel Rebuttal at 8.

27 Verizon NRC Panel Rebuttal at 9.

AT&T/WorldCom asked Verizon to provide support indicating the percentages of orders by type that would be considered *too complex* to allow automatic flow through provisioning.[28] Verizon failed to provide examples supporting its claims. Verizon's response is a reflection of how it perceives non-recurring costs. Instead of presenting percentages of orders so that AT&T/WorldCom and others could evaluate them, Verizon falls back on its position that *all costs perceived by Verizon in the service ordering stage are non-recurring costs* regardless of who the cost causer would be.[29]

Verizon's position must be rejected. As we stated in our rebuttal, two possible conditions exist in which service-ordering activities performed by the TISOC would be a non-recurring cost. In the first, the OSS lacks the necessary

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28 AT&T/WCOM 10-142.

29 *See* Verizon's Response to AT&T/WCOM 10-142, which states:

> a. Verizon VA does not categorize order types as "complex" or "simple." Rather, Verizon VA recognizes that, within any particular order type, there are likely to be simple orders that tend to flow through the OSS and more complex orders that sometimes do not. The proportion of simple and complex orders will vary among order types, and this diversity is reflected in the diversity of Typical Occurrence Factors assumed in the model.
>
> b. The [Verizon non-recurring cost model] develops the cost to process a service order for 5 different types of orders (loop, platform, EEL, digital, and special) and that cost is applied to all orders of the same type, regardless of their complexity. **That is, costs incurred in responding manually to particularly complex orders are spread among *all* orders through application of the Typical Occurrence Factor**. (emphasis added)

modifications or edits that would allow flow through to happen. The second condition that warrants a non-recurring cost in the service ordering stage is CLEC-caused fallout (such as errors in format or content detected by the OSS), for which Verizon must manually return the LSR back to the CLEC.

Verizon did not identify the elements for which the OSS was not capable of processing the request electronically (condition #1), nor did Verizon identify the percentage of orders for which it must manually return the order back to the CLEC (condition #2). The table presented above from Verizon's own documentation shows that no products fall under condition # 1 (that is, the OSS is capable of processing the request electronically for all elements). Nonetheless, in an attempt to justify its position, Verizon pointed to an example that does not reflect a limitation of the OSS, but rather a <u>policy</u> that it has in place to determine if an order can be fulfilled. The Verizon NRC Panel states:

> Verizon VA's Telecom Industry Services Operating Center (TISOC), recently redesignated as the National Marketing Center (NMC), manually handles many CLEC service orders. One type of order that requires manual intervention by design is a service order for more than five new POTS loops at a single location. To process such an order, Verizon VA's TISOC representatives must request that Verizon VA's outside plant engineers perform a facility check to verify that there are enough

> facilities at that particular location to fulfill the request.[30]

This policy does not justify the imposition of a non-recurring cost.

Verizon framed its TISOC argument in the rebuttal testimony by presenting this basis for preventing the automatic processing of the CLEC's request.

> Obviously, in designing its network, Verizon VA has had to use its best engineering judgment to estimate how many total lines end users will use. Such an estimate may not have accounted for an order containing an unusually large number of lines at a single premises. As a result, Verizon has learned through experience in the retail environment that such a facility check is useful before promising a customer a due date so as to avoid having to move the due date if it turns out additional facilities will be required.[31]

If Verizon's policy did justify non-recurring cost, then the resulting activities related to the policy would also have to be non-recurring in nature. In other words, the policy of determining demand would also include the Engineering departments, followed by the Outside Plant Construction departments, and finally the Central Office departments—all of which would be necessary to provide the construction activities necessary to rearrange the plant to meet the demand. But, Verizon has not included the manual work of these

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30 Verizon NRC Panel Rebuttal at10.

31 Verizon NRC Panel Rebuttal at 10.

departments as non-recurring as a result of this claimed TISOC activity. That likely is because Verizon knows that the cost for this policy is avoidable under a TELRIC recurring cost study in the long run. Verizon simply did not go far enough to remove the TISOC activity from its cost study—a problem that pervades the entire Verizon non-recurring cost model.

Moreover, Verizon's stated policy presumes that its records do not permit the company to determine how many facilities it has available for a given location without going out and looking. Hence, this is really a workaround policy designed to deal with poor embedded data. In any event, the request cannot be fulfilled, Verizon would use maintenance or construction activities (and expenses) reflected in the recurring rates to modify its plant. The only non-recurring cost involved is the transaction cost of connecting the CLEC to that piece of the network. The mere fact that Verizon has a policy in place to maintain and rearrange plant in connection with service orders does not convert the cost of those activities into non-recurring costs.

Q. HOW SHOULD THIS COMMISSION DECIDE THE LEVEL OF MANUAL INTERVENTION THAT IS NECESSARY IN THE SERVICE ORDERING STAGE?

A. Non-recurring costs should be based on the manual activity necessary to order and provision a single request, examined as an end-to-end process flow within an efficient, forward-looking network modeled in accordance with TELRIC principles. Service ordering is by and large a flow-through process when electronic CLEC requests for a single UNE are assumed.

In TELRIC analysis all costs caused by the construction and maintenance of a forward-looking network are captured in the recurring model and must therefore be excluded from the non-recurring model to avoid double counting. In contrast, Verizon builds its non-recurring costs by attempting to account for all of the activities of its existing departments and workgroups without consideration of how those activities would relate to the construct of a TELRIC recurring cost analysis. Thus, Verizon's fallout percentages reflect a variety of inefficiencies that exist in its embedded network, or are recurring costs in TELRIC analysis and which should therefore be excluded from non-recurring costs.

V. VERIZON'S OWN NON-RECURRING STUDY FAILS TO DISTINGUISH BETWEEN FALLOUT AND DESIGNED MANUAL HANDLING.

Q. VERIZON ASSERTS THAT IT IS IMPORTANT TO DISTINGUISH BETWEEN "FALLOUT" AND DESIGNED MANUAL HANDLING. HAS VERIZON, IN FACT, MADE THIS DISTINCTION IN ITS STUDY?

A. No. Verizon's study is devoid of any such distinctions. Verizon's NRC Panel states:

> it is important to distinguish here between "fallout"—that is, manual processing that is needed in connection with orders that are designed to flow through OSS electronically—and situations in